

How to Promote Startups

When people talk about how government can promote startups, there seems to be a fairly standard consensus: we need more economic inequality. [Lower income](#) and [capital gains](#) taxes provide more incentive to work, looser labor laws make it easier to fire non-performers, and large private wealth funds provide investment capital.

But having been through a startup myself, I think there's much more you can do in the other direction: decreasing economic inequality. People love starting companies. You get to be your own boss, work on something you love, do something new and exciting, and get lots of attention. As Daniel Brook points out in *The Trap*, 28% of Americans have considered starting their own business. And yet only 7% actually do.

What holds them back? The lack of a social safety net. A friend of mine, a brilliant young technologist who's been featured everywhere from PBS to Salon, stayed in academia and the corporate world while all of her friends were starting companies and getting rich. Why? Because she couldn't afford to lose her health insurance. Between skyrocketing prices and preexisting condition exclusions, it's almost impossible for anyone who isn't in perfect health to quit their job. (I only managed because I was on a government plan.)

Anyone with children is also straight out. Startup founders tend to be quite young, in no small part because no one can afford to support a family on a startup founder's salary. But if we had universal child care, that would be much less of an issue. Parents would be free to pursue their dreams, knowing that their children were taken care of. And universal higher education could let parents spend their savings on getting a business started, instead of their children's tuition. Plus, it'd give many more kids the training and confidence they needed to start a company.

And those large private wealth funds that result from growing inequality? A real problem for startup founders is that they're *too large*. It used to be that you could borrow a couple thousand dollars from friends and neighbors to get your business off the ground. Nowadays, they're too busy trying to make ends meet to be able to afford anything like that. Meanwhile, those large wealth funds I mentioned are now so big they can only afford to invest in multi-million dollar chunks — much more than the average founder needs, or can even justify. And the large investments come with large amounts of scrutiny, further narrowing the recipient pool.

But imagine if the government provided a basic minimum income, like Richard Nixon once proposed. Instead of having to save up (increasingly difficult in a world in which the only way to survive is on credit card debt) or borrow money to stay afloat, you could live off the government-provided income as you got things started. Suddenly having to quit your job would no longer be such a huge leap — there'd be a real social safety net to catch you. (Not to mention if those labor laws some people want to loosen required your old job to take you back if things didn't work out.)

Of course, there is some truth to the standard proposals. Some startup founders are encouraged by dreams of financial security, and high taxes can make that dream more elusive. And complex labor regulations can make it difficult to get new companies off the ground. But it's not an issue of whether we should have taxes or labor laws — it's an issue of how they're targeted.

Estate taxes on inherited fortunes would have basically no impact on startup founders, but could go a long way to funding a social safety net. And since most startups are acquired as stock, income taxes are basically irrelevant — it's really capital gains tax that gets applied. There's no reason the government couldn't apply a lower capital gains tax to startups that get acquired than they do to the shares of publicly-traded companies that large investors trade.

The same is true for labor laws: preventing large companies from firing people at random can provide some much-needed stability to their lives, especially if they're saving up money in the hopes of going into business themselves. But there's no reason such laws also have to be applied to small startups, where the company is more likely to go out of business than to fire you.

Look at social democratic Europe, where these policy prescriptions have been tried. While there's much less of a culture of entrepreneurship and only 15% of Europeans think about starting their own company, nearly all (14.7%) of them actually go ahead and do it.

The fact is, if governments really want to promote startups and the economic innovation they bring, they shouldn't listen to the standard refrain of cut taxes and deregulate. They need to start rebuilding the social safety net, so that their citizens know that if they go out on a limb and try something risky, someone will be there to catch them if things don't work out.

Thanks to Daniel Brook's book [The Trap: Selling Out to Stay Afloat in Winner-Take-All America](#) for suggesting this line of argument and providing the statistics.

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